

United States Postal Regulatory Commission
901 New York Avenue NW, Suite 200
Washington, DC 20268-0001
United States of America

31 August 2012

Re: Section 407 Inquiry, Docket PI2012-1

REPLY COMMENTS FROM NORDIC POSTAL OPERATORS

These reply comments are being submitted jointly by the public postal operators of the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. We thank the Commission for allowing reply comments to this inquiry. The Nordic postal operators have previously submitted a full contribution to this inquiry, and we will limit our reply comments to certain aspects of the submission by the USPS related to proposal 81 to the UPU Congress.

Proposal 81

In its submission the USPS gives much attention to proposal 81, a proposal submitted by Denmark and, as of the deadline of submission July 23rd, officially supported by Austria, Finland, Estonia, Iceland, Italy, Nicaragua, Norway, Sweden and Switzerland. Proposal 81 was attached to the submission in this inquiry by the Nordic postal operators.

Proposal 81 addresses the need for closer attention to the principles of national regulatory and competition law rules in the further development of the UPU terminal dues system. This is of major importance in an international postal market characterized by increasing competition among public postal operators, particularly in industrialized countries, and between public postal operators and global delivery companies. Furthermore, rapidly changing market demand conditions - sharp declines in letter mail volumes, increasing volumes of e-commerce packets - require more cost-based and flexible remuneration to ensure sustainability of the UPU postal exchange system.

It should be noted that proposal 81 does not affect the terminal dues system for the period 2014-2017. Essentially, proposal 81 encourages a closer involvement by postal authorities in the work of the UPU bodies on the terminal dues system for 2018 -2021 by adding an instruction to the Council of Administration to study, identify and report on, by the middle of the next Congress cycle, possible appropriate amendments to the terminal dues system that would ensure greater compatibility between UPU terminal dues and main principles of national regulation and competition law. The proposal also instructs the Council of Administration to develop proposals to ensure implementation of the long agreed goal within the UPU of cost-based, country-specific terminal dues rates for letter post mail exchanged between group 1.1 countries (the most industrialized countries) from 2018, ending the transitional cap rate provisions. In this regard we note from USPS's comments that it

does not suggest that the system proposed by the POC for the period 2014-2017 will actually deliver a system in line with this long agreed goal.

Moreover, proposal 81 emphasizes the need to take into account the special situation of developing countries and to ensure their development opportunities. It also gives the CA ample flexibility to determine how to relate any new terminal dues proposals to the issue of remailing. Furthermore, additional challenges posed by below cost domestic tariffs required by national regulation should be addressed as part of the proposed study by the Council of Administration.

Facts and consequences

At page 9 in its contribution, the USPS refers to postage rates in Norway and Denmark. However, the presentation is not entirely correct and their calculations have overestimated the differences in domestic rates. Whereas the USPS does not specify which of the many domestic postage rates it is referring to, the given rate for Denmark (single piece, first class 0-50 g. letter) suggests that the rate in question is that for a 20 g. P letter used in the UPU terminal dues formula. In this case the correct rate for Norway would be USD 1.25, not USD 1.55 as suggested by the USPS. Furthermore, the other rate relevant to the UPU formula, for a 175 g. G letter shows less differences between these countries than the one provided by the USPS: US USD 2.10, Denmark USD 4.13 and Norway USD 3.56¹.

Given the errors in the underlying data, the consequences of aligning terminal dues more closely with domestic postage as described by the USPS, inter alia, at page 8, are most likely also incorrect. In any event, there is no doubt that UPU terminal dues are below the corresponding domestic postage and below cost for virtually all industrialized countries, resulting in an ongoing and de facto subsidy flowing from mailers and postal operators in net importing countries to the public postal operators in net exporting countries. The existence of such subsidies in the current system and that the USPS itself derives benefits from them, is confirmed by the description on page 10-11 of the USPS document concerning the consequences for the USPS of paying foreign posts more cost based rates for their distribution services. To the extent that the current subsidies are passed on to the mailers and thus resulting in below cost postage, wider distortions may result, as described in the main contribution provided by the Nordic postal operators. In short, our impression of the comments made by USPS is that the position proposed, although concentrating on the short term financial consequences for the USPS, is against a more cost based and country specific terminal dues system in line with modern competition law and principles of postal regulation.

On page 9 of the document submitted by the USPS it is stated that “Without more data on what is included in those domestic rates, U.S. rate payers should not be required to subsidize the aspects of foreign operators and governments that may be supported by basic domestic postage tariffs.” The basic assumption and intention behind this statement is unclear. To the extent that it suggests that postage in other industrialized countries are allowed to include financing of public service unrelated to the postal services in question, or even other commercial services provided by the postal operator, such practices would certainly be contrary to the postal regulation implemented in the EU / EEA area. Beyond the EU / EEA, any problems with domestic postage not being in line with the underlying costs seem to be the opposite of the problem suggested by the USPS, namely that domestic postage is required by regulation to be below cost. The risks outlined by the USPS of U.S

¹ Average exchange rates for July 2012. All rates are exclusive of Value Added Tax which does not apply to terminal dues.

mailers subsidizing foreign operators and governments are, therefore, clearly contrary to the actual situation.

At page 12 of the document submitted by USPS it is stated that “efforts to remove the cap on terminal dues, as suggested in Proposal 81, would have a drastic and devastating effect on many foreign postal operators and their international mailers”. In considering this statement, we believe the Commission should keep in mind that terminal dues have no effect on the actual costs of providing postal services; terminal dues are what public postal operators pay each other for distribution services. As substantiated in our main contribution, the Nordic public operators believe that the risks stemming from preserving the rigidity of the present system for another decade are far more serious than any consequences of terminating the subsidies at present enjoyed by some postal operators.

Postage rates as of July 2012 referred to above, do, of course, not give a satisfactory background for evaluating what is a sound UPU terminal dues system for the future. Another element is the impact on unit costs and thus prices from electronic substitution of lighter letter post items which has reached different stages in different countries, e.g. the mail volumes in Denmark have already dropped by 45% since 2001. In the decade ahead which is addressed by proposal 81, wider adjustments to the dramatically changing market conditions must be expected and, indeed, allowed, to avoid risks of undermining the financing of the postal services in the UPU system.

Submitting on behalf of the public postal operators in Denmark, Finland, Iceland, Norway and Sweden,

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